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As I sell

THE OUTLOOK FOR A DROP IN CONSTRUCTION COSTS

CONSTRUCTION costs have been rising, almost without interruption, since 1933. At that time the standard six-room house used as a measure by our organization could have been built in St. Louis without the ground for \$4,480. It now costs \$12,994 to build the same house, or an increase of 190 per cent. The greater part of this increase has occurred after the war started in 1939. Construction costs are now 120 per cent higher than they were then.

In a rough fashion, construction costs have been repeating the experience of the First World War in the period we have just come through. From 1914 to 1920 the cost of building our house increased from \$3,836 to \$7,678, or almost an even 100 per cent.

But the past is history - what of the future? Will construction costs advance further, remain at their present level, or drop?

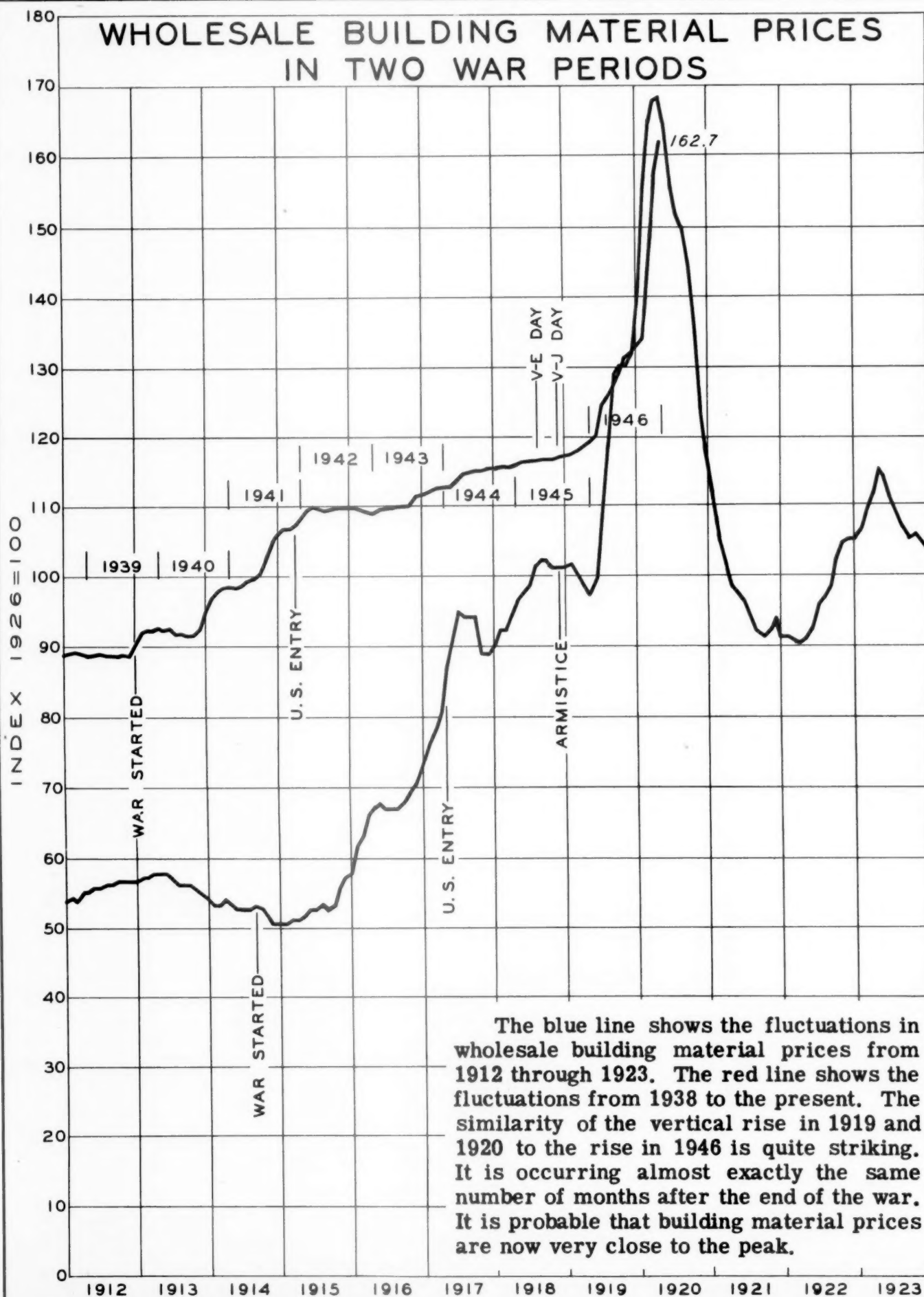
Let us start by seeing just what they did in the corresponding period after the First World War. In March 1920 lumber prices at wholesale reached 199 on the Bureau of Labor Statistics index (1926 = 100), having risen from a low of 48 right after the war started in Europe in the latter part of 1914. By August 1921 the index had dropped to 82, a drop of 59 per cent in sixteen months. Many people took such tremendous inventory losses that they were forced into bankruptcy.

Most of the other building materials took somewhat similar losses, but none quite so great as lumber.

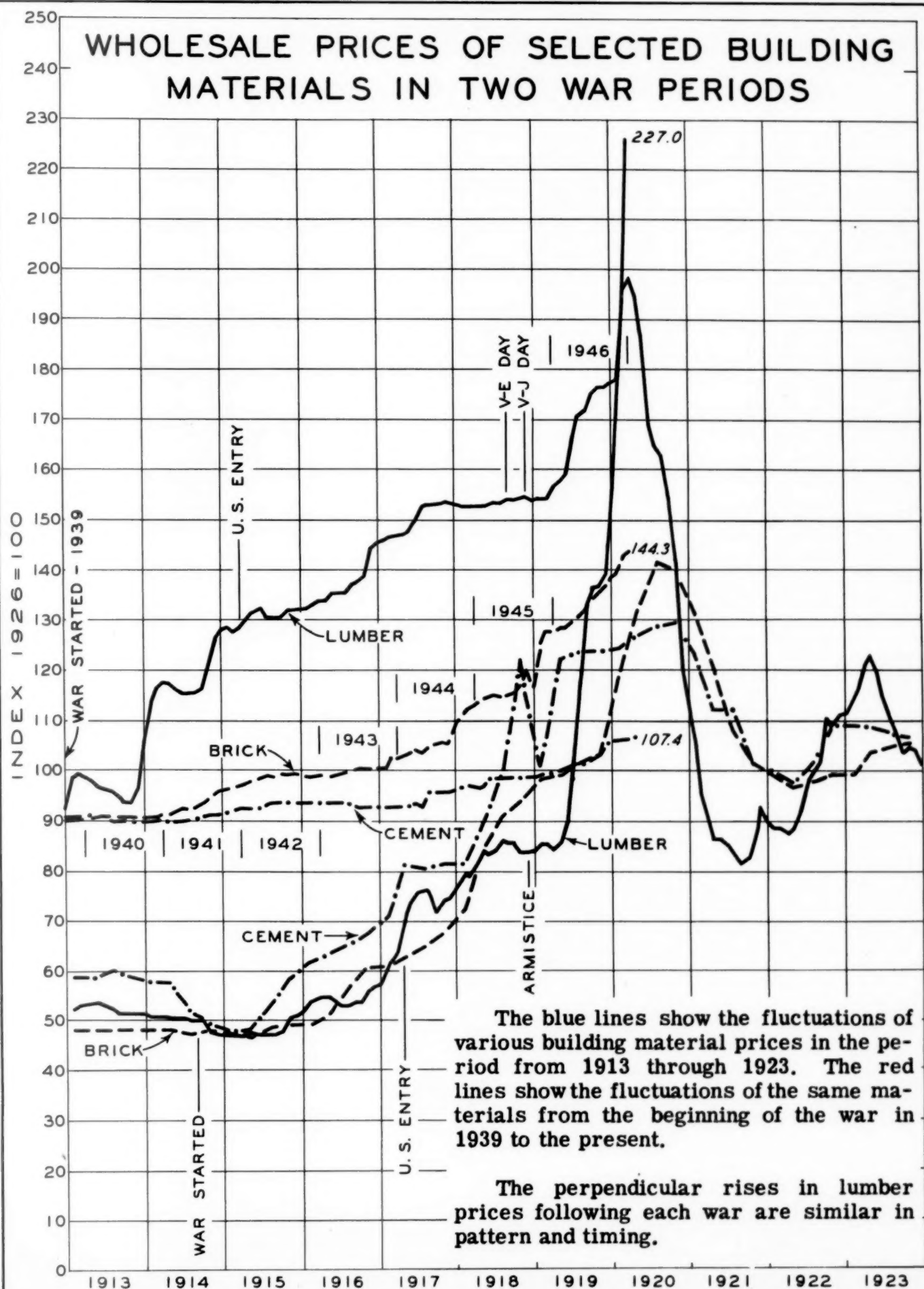
I have been quite interested in trying to find out what the general thinking of supposedly informed individuals was in the early part of 1920, right before the drop. Were the evidences of the impending crash so clear that careful thinkers realized what was coming? Apparently not. I have read over many articles which were written then, without finding a single one which expressed the thought that a sizable drop in prices was possible. Royal Meeker, the Commissioner of Labor Statistics, in a signed article in the Monthly Labor Review of February 1920, just two months before the collapse started, wrote:

I see no prospect of any considerable fall in prices for several years to come. It will be impossible for the Governments of the world to pay off their debts very rapidly. On the contrary, there is every reason to apprehend that credits must be issued to foreign Governments, foreign manufacturers, and foreign business men, in order to rehabilitate the

WHOLESALE BUILDING MATERIAL PRICES IN TWO WAR PERIODS



The blue line shows the fluctuations in wholesale building material prices from 1912 through 1923. The red line shows the fluctuations from 1938 to the present. The similarity of the vertical rise in 1919 and 1920 to the rise in 1946 is quite striking. It is occurring almost exactly the same number of months after the end of the war. It is probable that building material prices are now very close to the peak.



broken and shattered industries of Europe. This being the case, we may expect that larger volumes of checks and credit instruments will be thrown into circulation, thus boosting prices still higher. If it is impossible to reduce the volume of the world's indebtedness suddenly, it is even more impossible to increase the quantity of the world's goods suddenly. Of course, the world's productive forces are being marshaled as rapidly as possible in order to increase the production from farms, forests, mines, and factories but this is necessarily a slow process, especially in these times of great business instability and labor unrest.¹

It will be noticed that Mr. Meeker not only did not expect a drop, but thought that prices might even go higher, and he listed a number of reasons for this belief. It is interesting that the same reasons have reappeared for the same belief in the recent past.

In the Real Estate Record and Guide for November 29, 1919, just four months before the drop started, the following statement was printed:

There is no anticipation of early relief from the advancing price tendency but according to the best informed in the industry increased costs will be no bar to structural activity as the demand for new structures of almost every description is almost as insistent as it was one year ago.²

and, two weeks later:

Building interests of the city are now practically unanimously of the opinion that the coming year will be one of the most active and prosperous in the history of the industry.³

There always seems to be a tendency to believe that whatever is will continue. An appraiser would call this capitalizing the present as a perpetuity. If prices are at any level, high or low, most people assume that they will continue on that level. That this has rarely been the case is shown quite conclusively by the charts in this report. The rather wild changes in both the First and Second World Wars are compared.

It is true that the perpendicular rise in lumber prices in the past six months has not been quite so great as it was in the corresponding period of twenty-seven years ago, although these prices have reached a far higher dollar total now than has ever been reached before. It seems to me that these prices are now very close to the top and after the peak has been reached, I doubt if they will linger very long at that level. I rather doubt whether the drop ahead, however, can be as drastic as the drop in 1920 and 1921.


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¹Royal Meeker, "Improbability of Decrease in Prices and Cost of Living," Monthly Labor Review, February 1920, p. 96.

²Real Estate Record and Builders Guide, November 29, 1919, p. 548.

³Ibid., December 13, 1919, p. 610.